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SIPDIS

AF/FO FOR DAS PERRY

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SUBJECT: NIGERIA: NEED TO SUPPORT IMPORTANT FY-02 ESF PROPOSALS

REF: 01 ABUJA 3162

1. This cable provides additional justification for two of the FY-02 ESF proposals submitted reftel. The following justifications are in order of Mission priority. Complete project descriptions will be faxed to AF/W.

1A. PRIVATE/PUBLIC PARTNERSHIP TO DEVELOP AGRIBUSINESS IN THE NORTH

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Project Overview and USG Interests  
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2. We need creative projects that directly address key American interests and concerns in Nigeria. This project fits that description by advancing important goals of Economic Growth, Democratization and Combating Terrorism, three of the Mission's key performance goals under the latest MPP. Northern Nigeria needs greater USG penetration, diplomatically as well as by our economic assistance. Nigeria is home to Africa's largest Muslim population, and most Nigerian Muslims live in the North. The project will be an important symbol that the USG regards Nigeria's Muslims as its friends and partners. Our diplomatic efforts to engage Nigeria's Muslim community will fall on deaf ears if not accompanied by demonstrations of targeted assistance that have a visible impact. Again, this project fits the bill nicely.

3. Kano is a key state economically and politically and Jigawa is a recently created state, formerly part of Kano. Kano's capital, which bears the same name as the State, is the North's largest city. Unfortunately, both the city and state have experienced significant unemployment and economic dislocations in recent years due to declining agricultural production and the impact of global economic competition on local industries, particularly textiles and leatherwork. Due to the high levels of unemployment and poverty, Kano has experienced severe disruptions in the recent past. Because of economic want, the local population is restive and Kano is a potential home for Islamic radicalism and divisive political regionalism. Organizations from Saudi Arabia, Sudan, Iraq, Iran, Pakistan and Libya have established themselves in Kano and elsewhere in the North. Not only do these groups provide Islamic education, many also promote anti-American sentiment. This project will help counter their presence.

4. By putting people to work and energizing the agricultural sector, the project will be a catalyst in the local economy. Not only is agriculture the dominant economic sector in the North, every new job created helps support 5-10 other people. Thus, job creation under this project will have a ripple effect, spurring growth beyond the activities directly related to the project. Additionally, the more people are gainfully employed, the less likely they are prone to social unrest and extremism of any form. The project promotes the order and stability necessary for sustaining democracy. This is exceedingly important as Nigeria moves to state and national elections in 2003. Key project objectives are to:

--Create a private/public partnership to develop a strong agro-business base and leverage \$6 million in private sector investment;

--Focus on existing crops with a strong agro-industrial potential and development of a sustainable local seed industry;

--Counter the deforestation that degrades water quality and encourages erosion;

--Introduce several high-value industrial tree crops with strong global market demand; and

-- Create a minimum of 5,000 jobs in agribusiness, particularly among rural youth, with a program for continued job creation for the coming decade.

15. Agro-industry in Northern Nigeria is in its infancy and not currently managed well. Bolstering agro-industry in the region, this initiative will focus on cotton for domestic use as well as tomatoes and other horticultural products for domestic use and export to the European Union and Middle East using the cargo facilities at Kano's International Airport. Locally grown cotton can be processed for the domestic textile industry, providing a basis for taking advantage of AGOA in the future. Cotton by-products can be used for animal feed and oil for various industrial end-uses. High value tree crops with strong global markets include the (1) Karite tree's shay nuts used by the cosmetics and soap industries; (2) Tee Tree (melaleuca spp.) oil marketed as a natural antiseptic and antifungal agent; (3) Gum Arabic derived from the Acacia Tree, used as an emulsifier; and (4) Neem Tree Oil, used by the furniture/wood industry. Making tree crops more valuable should reduce cutting for firewood, a principal cause of deforestation in the Guinea Savannah and Sahel.

16. Project Partners: Implementing this project, USAID's primary partners will be Schaffer and Associates (SAIL), Dangote Industries, Ltd. (DIL), AfricaGlobal (AFG), and Michigan State University (MSU). These partners will work with reputable local firms, State Governments, NGOs, CBOs (for out growers), and the Federal Government, to develop new private sector investment opportunities in agro-business and to create jobs. SAIL and MSU will have primary responsibility for all trials and training. SAIL and DIL, working with the local states, will focus on developing cotton, tomatoes and other horticultural products as agro-industrial crops. They will also explore the creation of a local private seed industry. Depending on how these develop, SAIL and DIL will assess exploitation of high value tree crops. SAIL/AFG will have primary responsibility for structuring new investment in agribusiness, working with DIL and other potential investors. MSU will work with AFG to develop a youth training/employment component for each crop. USAID will have overall responsibility for project implementation through a Cooperative Agreement with MSU through the Partnerships for Food Industry Development or similar mechanism.

17. Project Outputs: Within 2 years, the project will have: (1) created at least ten new agribusiness investment opportunities; (2) trained/mentored at 1,000 youth for agro-business related jobs; (3) leveraged \$6 million in new agribusiness investment; and (4) created 5,000 new jobs.

#### 1B. CREATING A RESPONSIVE ENVIRONMENTAL INDUSTRY (THE NIGER DELTA - SOUTH)

#### ----- Project Overview and USG Interests -----

18. This project advances the Mission Goals of Economic Growth and Democracy. The Niger Delta is economically important to the United States. Nigeria furnishes approximately 8 percent of U.S. oil imports and the nearly all Nigeria's production comes from the Delta. The region also is blessed with major natural gas reserves and large-scale gas extraction is imminent. As with oil, American companies will likely be major

players, and Nigeria can become an important source of natural gas for the United States.

19. However, despite the wealth generated by the extractive industries, the Delta remains an economically depressed, environmentally challenged and politically troubled region. There is significant discontent among residents that both their government and the oil companies have paid inadequate attention to their basic needs. Residents believe the local ecological system has been tossed off-balance by the extractive activities yet they have not been compensated for this adverse by-product of the oil industry, notwithstanding considerable resources from the oil companies for mitigation of environmental impact and investments in social infrastructure. For example, water contamination and improper waste management have contributed to a diminution of traditional means of livelihood (agriculture and fishing) but there also has been very little modern development (schools, roads, health clinics industries) in the region.

110. Because of this adverse combination, the Delta has seen more than its share of social unrest. Frequently, this discontent is focused against the oil companies. Protests and facility takeovers have disrupted operations and put personnel in harm's way. There is a history of kidnappings of oil company personnel. These types of disturbances can potentially disrupt an important source of oil for the U.S. Because oil revenues constitute the vast majority of Nigeria's national income, any major unrest and sustained disruption of production could hinder economic stability and growth in Nigeria. Additionally, the competition for scarce local resources by the Delta's inhabitants has led to persistent inter-ethnic clashes. These clashes undermine political stability and democratization. Last, although the U.S. oil companies in the Delta are private sector operations, they represent the United States to local residents. The extent we work with the local populace, government and the oil companies to address environmental and developmental concerns, the better will be our relationship and the greater our influence here. Key project objectives are to:

- Build a quality local private sector environmental services industry to more adequately address major environmental needs in the Delta;

- Develop a center of excellence at Port Harcourt University's Institute of Environmental Studies to provide entrepreneurial and skills training to strengthen and expand the private sector environmental services industry;

- Create a youth employment and training program for the local private sector environmental services industry;

- Urge private sector energy companies such as Shell, ExxonMobil, Chevron and others to contract with local private sector environmental firms assisted through this project;

- Create a minimum of 1,000 jobs in the local environmental services industry within two years, with a program for continued job creation each year for the coming decade; and

- Assist selected communities in the Delta to manage more efficiently the resources received from the GON and oil companies.

111. This project will help fill a serious gap -- the existing private/public sector capacity for environmental services in the Delta is inadequate. As a result, the environmental needs of the region cannot be sufficiently addressed by in-country resources. Environmental issues in the Delta typically include poor potable water quality/capacity, untreated or under-treated wastewater, lack of appropriate solid and medical waste management, contamination from oil and the related energy industry and natural resource depletion. These issues have a direct linkage to regional health and economic problems. The lack of

adequate environmental services further compounds other development gaps such as poor roads and inadequate health services.

12. Implementing Consortium: Millennium Science Engineering is a premier U.S. environmental services group with relevant global experience, including Africa. In addition to training local firms, they will help improve Port Harcourt University's Institute of Environmental Studies. AfricaGlobal has worked a number of years in the Delta, including with state governments, Port Harcourt University and oil companies. AfricaGlobal will ensure participation by all local stakeholders and help manage aspects of the project, including youth employment. Fresh and Green, a locally registered environmental services firm, will assist with training local firms, and with youth training and employment. Port Harcourt University will provide the venue and facilities for all local training.

13. Project Outputs: Within 2 years, the project will have: (a) created a center of excellence at the University of Port Harcourt; (b) trained/mentored at least 20 local environmental services firms and more than 100 youths; (c) assisted at least ten firms to win contracts with oil companies and the public sector to deliver environmental services; (d) created 1,000 new jobs; and (e) improved financial management in 6 to 10 LGAs in the Delta.

ANDREWS